

THIS IS PREFERRED . . .

The Rise, Fall & Rebirth of a Great American City

A Great American City: Chester, Pennsylvania

Founded in 1642, Chester is the oldest City in Pennsylvania and among the oldest cities in the United States. Situated just 15 miles south of Philadelphia on the banks of the Delaware River, Chester is equidistant to New York and Washington. For the first two centuries of its existence, Chester was a prosperous manufacturing community with industries concentrating on machinery, metal manufacturing, locomotive and shipbuilding, textiles and oil refineries.



This strong manufacturing base fueled a steady growth in both population and employment. At the dawn of the twentieth century, Chester was poised to take advantage of the growth in manufacturing that future world events would demand. Seeing this, the Philadelphia Electric Company (a/k/a “PECO” and now a part of Exelon Corporation) built a massive new generating station on the Delaware River as a monument to the new “alternating current” that it was generating, marketing and selling to the burgeoning industries in Chester. That power plant, designed by the renowned architect John Windrim, is a prime example of the Beaux-Arts style and was a testament to Chester’s vitality.



In 1910, Chester's population was 38,000. By 1920 it had grown to 58,000 as people moved into the City to fill the many jobs generated by the war effort. World War II stimulated a second period of economic expansion. Employment increased and demand for housing grew. Business and industry were operating at an all time high in the City. By 1950, Chester's population peaked at 70,000 people.

“Company-Town Syndrome”: Chester's Post-Industrial Desolation

Unfortunately, in the decades that followed the war, a changing world economy led to the decline of manufacturing jobs of the type that historically located in Chester. As major industries moved out of the City, retail growth declined, the rest of Delaware County (which had once relied on Chester for employment opportunities) became more independent and affluent. With the loss of its employment base, Chester became

increasingly cut-off from the surrounding communities. That combination of factors led to a severe downward spiral.

By 1999, Chester's population had been cut in half from its 1950 high. With manufacturing jobs reduced to practically zero, the City and its resources were overwhelmed by poverty, drugs, crime and AIDS. In 1999, the violent crime rate in Chester was 14 times higher than that of surrounding Delaware County. The City's school district, ranked dead last among Pennsylvania's 501 school districts, was taken over by the state in 1994. The once mighty PECO generating station, long since shut down, had become a dark, foreboding, contaminated wreck that stood out – as a reminder to all – of Chester's desperate straights. The City was at rock bottom.



Enter Preferred Real Estate Investments and its team of real estate professionals.

The Preferred Way:

Remaking Communities Through Brownfield Remediation, Comprehensive Real Estate Development & Community Economic Development Initiatives

In 2000, Mike O'Neill, Founder and Chairman of Preferred Real Estate Investments, Inc., was driving on the highway past Chester when he saw the old decrepit power plant looming in the distance. As a real estate visionary and pioneer in the field of adaptive reuse of former industrial buildings, O'Neill saw the spark of possibility. When Exelon was contacted about the status of the property, they reported that it was closed, heavily contaminated and slated for demolition. Every real estate "expert" had advised Exelon that there was absolutely zero demand for real estate in Chester and that the only option was to demolish the building and put a barbed wire fence around the site.

In fact, Preferred was not even allowed to tour the site without medical clearances, plastic "space suits" and respirators. However, as had happened many times before in his career, where others saw only the impossible, Mike O'Neill and Preferred Real Estate Investments saw hidden beauty, utility and opportunity.

In sizing up what the property could be, Preferred started with the most logical conclusion and worked backwards. What Chester needed was jobs – good paying jobs with strong, "new economy" companies. However, to sustain those jobs it also needed new housing, better schools, cultural resources and new recreational facilities. Always believing that all economic revitalization begins with job growth, Preferred determined that the former power plant site had to be converted to a place that would create a large number of jobs – an office building.

But not just any office building. An office building that would overcome the statistical fact that Chester had not experienced a net gain in jobs in over 45 years and that its employment base had fallen to less than 2,000 jobs (in a City where at one time a single shipbuilder employed more than 30,000 workers). An office building that would thrill corporate employers and draw them into a city that was struggling for its very existence.

However, before striking a deal with Exelon to acquire the site, Preferred had to deal with the immense challenge and expense of the site contamination. With an anticipated budget of over \$10 million for the remediation alone, tackling this brownfield location in the face of the existing market conditions was next to impossible for a private, for-profit development company. If not for the commitment of both Preferred and Exelon to work together to make Chester work again, the property and the city would never have moved forward.

Attracted by the prospect of disposing of the site and returning it to productive use, Exelon gladly accepted the ongoing responsibility to remediate the contaminated soil and water on the site. In fact, though Exelon invested millions into the transaction to make the project a success, that investment was far, far less than Exelon had originally allocated to deal with the demolition, remediation and ongoing responsibility for the site.

Once the remediation was complete, Preferred commenced what was, at the time, the most complicated demolition project in the United States. By hollowing out the core of the old building, Preferred was able to construct a new, modern office building within the old, historically significant façade.



Before the building was even completed, Preferred's formidable marketing team had spread the message of the project far and wide and secured long term leases with the best of the best including Wells Fargo, one of the fastest growing financing institutions in the United States, and Synogy, the nation's largest provider of software to manage corporate incentive compensation plans.



The final result was a \$70 million office building, renamed The Wharf, that became the centerpiece of an expansive mixed-used development originally envisioned by Preferred. Home to over 2,000 jobs, The Wharf doubled the employment base in Chester and put it on a path toward its new future.



An essential component of Preferred's approach to real estate development is the realization that isolated buildings on "islands" of redevelopment do not work. Without a comprehensive solution to the problems faced by the surrounding community a single

real estate project – no matter how dynamic – is not sustainable. Therefore, as an integral part of its development business, Preferred engages in what it calls Preferred Priorities. The mission of Preferred Priorities is to meet the needs of the communities in which Preferred does business by marshaling private, corporate and public resources to create lasting community institutions.

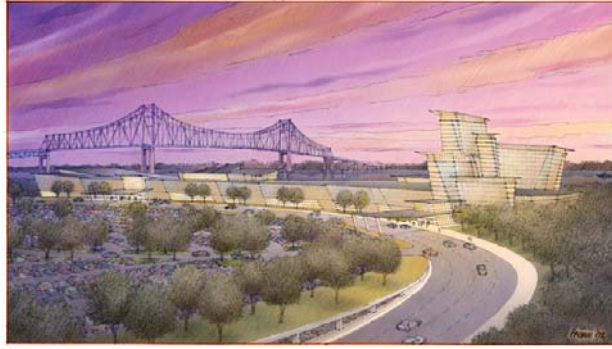
For example, the lifeline of any economy is its infrastructure. As the major highway arteries were developed in and around Chester during the second half of the twentieth century, Chester's declining economy, increasingly problematic socio-economic situation and largely African-American population, allowed short-sighted and racially biased decisions to be made about limiting access to Chester from these new roads. Without adequate access to vital infrastructure, Chester's already dying economy declined even faster. Working with the state and federal government, Preferred secured a \$20 million appropriation from the federal ISTEA highway funding legislation to construct two new access ramps from the nearest major highway into the heart of Chester's business district.



To foster the creation of safe, new affordable housing within the City, Preferred was instrumental in solidifying the City's applications for two Hope VI grants through HUD. With over \$25 million of new construction, the revitalized Chester Housing Authority now serves over 2,000 families by providing them with safe, affordable homes in Chester.

In addition to the previously discussed affordable housing, the rejuvenation of Chester has brought about the first new, market-rate housing developments in Chester in 40 years. This new housing is attracting high-income individuals back to Chester.

The influx of new residential development in Chester has spurred the development of new entertainment venues. Harrah's Entertainment, the world's largest casino operator, is investing millions of dollars in a new horseracing track complete with a casino. This new facility will attract millions of visitors and millions of dollars per year to Chester.

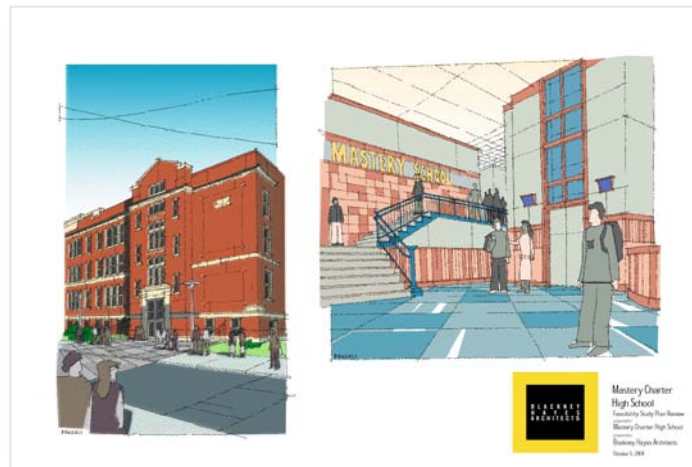


In Chester, Preferred raised hundreds of thousands of dollars in private funds, including donations from Major League Baseball, to completely replace and renovate Chester High School's aging and decaying athletic fields and facilities.

To build a Community Arts Center, Preferred also secured federal grants and raised significant private capital to create a community resource for the arts – where adults and children would have access to artistic and cultural activities.

Historically, Chester's Boys & Girls Club was a haven for children seeking an escape from the dangers of drugs and violence that pervaded the streets of the City. Over the years, thousands of children played sports, did homework, learned crafts and stayed out of trouble at the B&G Club. Due to a lack of funding, the Club's facilities declined to the point where they were almost unusable. Working with the City, Preferred raised private, corporate and public funds to build a new B&G Club to serve future generations of Chester's youth.

Among all of Chester's problems, its public schools stand out as the worst and most heartbreaking. Consistently ranked dead last among all Pennsylvania school systems, the Chester public schools are in crisis. To combat that reality, Preferred is working with Mastery Charter High School to establish a new, non-profit charter high school in Chester. If the public school cannot be fixed overnight – at least students can be offered a better choice. Preferred was instrumental in founding the original Mastery Charter High School in Philadelphia and over the 4 years of its existence, the Mastery model has been named one of the 15 best charter schools in the United States and has received a significant funding commitment from the Bill & Melinda Gates Foundation for expanding its operations to 6 new schools. Mastery Charter High School will begin educating hundreds of students in Chester by September of 2006.



As stated previously, the lifeblood of any revitalization effort is the creation of jobs. All of the previously described improvements have caused the local companies that did still exist in Chester to reinvest in their operations and to expand. The local medical center, Crozer-Keystone Health System, invested \$80 million in a new burn center and created hundreds of new jobs. Kimberly-Clark Corp., a leading manufacturer of paper products and a \$31 billion dollar company, recently completed a \$100 million renovation to its facility thereby creating and preserving thousands of jobs in Chester. In addition, hundreds of thousands of square feet of new office and industrial space is being constructed in Chester, which will house thousands of additional new jobs.



Protection. For life.



Kimberly-Clark

New Hope: **Chester Rises to Meet the 21st Century**

A famous and telling sign of Chester's past, its troubled recent history and its bright future was the large roadside sign that dominated Chester's sight lines for almost 50 years. The large illuminated sign read:



That statement was never truer than in Chester's heyday, when its plants and factories turned out the materiel that won the First and Second World Wars. Once those industries disappeared, Chester made nothing and was nothing to many people. Now, after decades of decline and decay, what Chester is making is new jobs, new opportunities and **new hope**.